

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO.: 4486-01  
BILL NO.: HB 2063  
SUBJECT: Disabilities; Elderly; Revenue Dept.; Taxation and Revenue-General-Income  
TYPE: Original  
DATE: April 3, 2000

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	\$0	(\$1,750,459) to (Unknown)	(\$1,841,880) to (Unknown)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>\$0</b>	<b>(\$1,750,459) to (Unknown)</b>	<b>(\$1,841,880) to (Unknown)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 4 pages.

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**FISCAL ANALYSIS**

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**ASSUMPTION**

Officials of the **Department of Revenue (DOR)** state this legislation allows a subtraction on the income tax return for expenses incurred by a taxpayer for custodial care and durable medical equipment not paid for by insurance. The subtraction is equal to 100% of the amount paid by the taxpayer, to the extent such amount is included in the taxpayer's federal adjusted gross income and is not allowed as a credit pursuant to the Internal Revenue Code.

The number of taxpayers eligible for this subtraction is unknown at this time. The Division of Taxation anticipates this subtraction will have a 2% impact on processing time. Therefore, the Division will need one temporary tax season employee (\$8.00 an hour) for every 130,000 returns filed with this subtraction and one Tax Processing Tech I will for every 20,000 income tax errors generated by this legislation. One Tax Processing Tech I will also be needed for every 3,000 additional pieces of correspondence generated by this legislation.

This legislation will require modifications to the individual systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours, a cost of \$41,617. Modifications to tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$4,498 is requested for implementation costs.

**Oversight** assumes the Department of Revenue would require 346 hours of overtime at a cost of \$10,404 for modifications to the income tax system. Oversight also estimates that funding for State Data Center charges would be \$2,815 for additional storage and fields to be captured.

Officials of the **Office of Administration (COA)** state the number of taxpayers eligible for this subtraction is unknown.

**Oversight** assumes there are no statistics available on how much durable medical equipment expenditures are in Missouri; therefore, national data was used. **Oversight** used the national expenditures for "Vision Products and Other Medical Durables" as reported by the Health Care Financing Administration. Those expenditures were then reduced by 46%, which is the estimated retail sales of optical goods (eyeglasses, contacts, etc.) in the United States according to the U.S. Census Bureau, 1997 Economic Census data, leaving just durable medical equipment expenditures. Those expenditures were then multiplied by 17% to reflect the percentage of health expenditures that are paid for Out-of-pocket. Those expenditures were multiplied by 1.9% to represent Missouri's portion of the national total. A marginal tax rate of 6% was assumed. No information or statistics were available for out-of-pocket expenses for custodial care.

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<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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**GENERAL REVENUE FUND**

Loss to General Revenue Fund

Durable Medical Equipment income tax deduction	\$0	(\$1,737,240)	(\$1,841,880)
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Custodial Care income tax deduction	\$0	(Unknown)	(Unknown)
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Costs-Department of Revenue

Reprogramming costs	\$0	(\$13,219)	\$0
Personal Service	\$0	(Unknown)	(Unknown)
Fringe Benefits	\$0	(Unknown)	(Unknown)
Expense and Equipment	\$0	(Unknown)	(Unknown)

**ESTIMATED NET EFFECT ON  
GENERAL REVENUE FUND**

	(\$1,750,459)	(\$1,841,880)
	to	to
<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

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DESCRIPTION

This bill authorizes a resident individual income tax deduction equal to 100% of the amount paid by a taxpayer for custodial care and durable medical equipment during the taxable year to the extent the costs are included in federal adjusted gross income and to the extent the expenditures are not reimbursed by insurance. The bill will become effective January 1, 2001.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue  
Office of Administration  
1998 U.S. Statistical Abstract



Jeanne Jarrett, CPA  
Director  
April 3, 2000